

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

In the Matter of:

AA-EC-09-43

Community National Bank of Sarasota County
Venice, Florida

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Community National Bank of Sarasota County, Venice, Florida (“Bank”) is a national bank subject to the provisions of 12 U.S.C § 1831o and 12 C.F.R. Part 6; and

WHEREAS, the Office of the Comptroller of the Currency (“OCC”) is authorized, pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6, to issue directives to take prompt corrective action (“PCA”) to resolve the problems of national banks and to restore their capital at the least long term cost to the Deposit Insurance Fund, thereby effecting the purposes of 12 U.S.C. § 1831o; and

WHEREAS, the Bank amended its March 31, 2009 Consolidated Report of Condition and Income (“Call Report”) on May 20, 2009, reporting that its capital places it in the “critically undercapitalized” category for PCA purposes. The Bank is deemed to be on notice of its capital category as of the date its amended Call Report was filed; and

WHEREAS, the Bank has failed to address unsafe and unsound practices and conditions required by the Written Agreement entered into by the Bank and the OCC, dated March 17, 2008; and

WHEREAS, on May 22, 2009, the OCC issued a Notice of Intent to Issue Prompt Corrective Action Directive to the Bank pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6; and

WHEREAS, on May 29, 2009, the Bank submitted a written response to the OCC's Notice of Intent to Issue Prompt Corrective Action Directive; and

WHEREAS, the OCC has carefully considered the Bank's response to the Notice of Intent to Issue Prompt Corrective Action Directive; and

WHEREAS, the OCC has determined to issue this PCA Directive in order to resolve the Bank's problems at the least long-term cost to the Deposit Insurance Fund, thereby effecting the purposes of 12 U.S.C. § 1831o;

NOW, THEREFORE, pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6, the OCC directs the Bank and its Board of Directors ("Board") to do the following:

ARTICLE I

IMPROVING CAPITAL

(1) Not later than June 19, 2009, the Bank shall submit to the OCC Director of Special Supervision ("Director") a fully executed binding agreement to:

- (a) Sell enough shares or obligations of the Bank so that the Bank will become "adequately capitalized" (as defined in 12 C.F.R. § 6.4) by July 17, 2009; or
- (b) Merge with or be acquired by another financial institution, financial holding company, or other entity whereby the resulting depository institution would be at least "adequately capitalized" (as defined in 12 C.F.R. § 6.4) by July 17, 2009; or
- (c) Sell all or substantially all of the Bank's assets and liabilities to another financial institution, financial institution holding company, or other entity by July 17, 2009.

(2) The Board shall at all times make diligent and good faith efforts to cause the Bank to comply with paragraph (1) of this Article. For the purposes of this Directive, “diligent and good faith efforts” shall include, but not be limited to, the following:

- (a) Authorize and direct appropriate Bank officers to take appropriate actions consistent with the Bank’s obligations under paragraph (1) of this Article, which include, but are not limited to, taking all reasonably practical steps to remove impediments to accomplishing the sale of shares or obligations or accomplishing a merger, acquisition or sale of all or substantially all of the Bank’s assets and liabilities;
- (b) Cause the Bank to hire such professionals as are necessary and appropriate to fulfill the Bank’s obligations under paragraph (1) of this Article; and
- (c) Cause the Bank to share appropriate information about itself with potential acquirers, merger partners or purchasers, including, but not limited to, any such potential acquirer, merger partner or purchaser identified or referred to the Bank by the OCC or the Federal Deposit Insurance Corporation.

(3) The Bank and any subsidiary thereof shall not issue any securities or enter into any agreement, letter of intent or understanding to merge, consolidate, sell all or substantially all of its assets and liabilities, or otherwise be acquired, or enter into any agreement or understanding to reorganize unless it first receives the OCC’s written non-objection of such action.

(4) If the Bank improves from a lower to a higher PCA capital category, it shall continue to comply with this Directive, unless modified, terminated, suspended or set aside by the OCC in writing.

(5) Not later than ten (10) days following the end of each month after the date of this Directive:

- (a) Management of the Bank shall prepare, and the Board shall review, a written report (i) specifying whether the Bank was in compliance with each of the requirements of this Directive during the preceding month; (ii) a verification of the Bank's PCA capital category; and (iii) specifying whether the Bank is in compliance with all restrictions that apply automatically to a bank in that category; and
- (b) The Bank shall submit to the OCC a summary of actions taken during the preceding month in furtherance of the Bank's efforts to comply with paragraph (1) of this Article, including descriptions of any material discussions with potential purchaser(s) of stock or Bank obligations, acquirer(s) or merger partner(s) and any due diligence performed by potential purchaser(s) of stock or Bank obligations, acquirer(s) or merger partner(s).

ARTICLE II

CAPITAL RESTORATION PLAN

(1) If the Bank does not submit a fully executed binding agreement described in Article I, sub-paragraphs (1)(b) or (1)(c), then the Bank shall submit an acceptable Capital Restoration Plan to the Director not later than June 19, 2009.

(2) The Capital Restoration Plan shall include:

- (a) Specific plans for achieving by July 17, 2009, and thereafter maintaining, the following minimum capital ratios as required by the Capital Directive issued pursuant to 12 U.S.C. § 3907 and 12 C.F.R. Part 3 on June 3, 2009 ("Capital Directive"):

- (i) Tier 1 capital at least equal to twelve percent (12%) of risk-weighted assets; and
 - (ii) Tier 1 capital at least equal to nine percent (9%) of actual adjusted total assets;
- (b) Projections of the sources and timing of additional capital and/or projections of the methods and timing of reducing assets to meet the requirements of subparagraph (2)(a) of this Article;
- (c) The primary source(s) from which the Bank will strengthen its capital structure to meet the requirements of subparagraph (2)(a) of the Article;
- (d) Alternative source(s) from which the Bank will strengthen its capital structure if the primary source(s) identified pursuant to subparagraph (2)(c) of this Article are not available;
- (e) Projections for future capital needs based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet assets and activities;
- (f) A dividend policy that permits the declaration of a dividend only:
 - (i) When the Bank would not be undercapitalized after making the distribution;
 - (ii) When the Bank is in compliance with its approved Capital Restoration Plan;
 - (iii) When the Bank is in compliance with the Capital Directive;
 - (iv) When the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (v) With the prior written non-objection by the Director;

- (g) Specific plans detailing how the Bank will comply with the restrictions or requirements set forth in this PCA Directive and 12 U.S.C. § 1831o, including:
 - (i) The restrictions on capital distributions set forth at 12 U.S.C. § 1831o(d)(1);
 - (ii) The restrictions against the payment of management fees to any person having control of the Bank if, after making the payment, the Bank would be undercapitalized, as set forth in 12 U.S.C. § 1831o(d)(2);
 - (iii) The restrictions against asset growth set forth at 12 U.S.C. § 1831o(e)(3);
 - (iv) The restrictions on acquisitions, branching and new lines of business set forth at 12 U.S.C. § 1831o(e)(4);
 - (v) The restrictions on brokered deposits as set forth at 12 C.F.R. § 337.6; and
 - (vi) The restrictions on accepting employee benefit plan deposits as set forth at 12 U.S.C. § 1821(a)(1)(D)(ii); and
- (h) The types and levels of activities in which the Bank will prospectively engage.

(3) Pursuant to 12 U.S.C. § 1831o(e)(2)(B)(ii), the Capital Restoration Plan will not be deemed acceptable unless it also satisfactorily includes:

- (a) A documented analysis of the Bank's current and prospective financial condition, including the basis for any assumptions used in the analysis;

- (b) Current and prospective pro forma balance sheets for at least four (4) consecutive quarters;
- (c) Current and prospective budgets for at least four (4) consecutive quarters;
- (d) A strategic plan;
- (e) Market analysis supporting the ability to raise capital; and
- (g) Specific steps to address the unsafe and unsound practices identified in the most recent Report of Examination.

(4) Pursuant to 12 U.S.C. § 1831o(e)(2)(C), the Capital Restoration Plan will not be acceptable unless the plan:

- (a) Complies with paragraphs (1), (2), and (3) of the Article;
- (b) Is based on realistic assumptions and is likely to succeed in restoring the Bank's capital;
- (c) Would not appreciably increase the risk to which the Bank is exposed; and
- (d) Includes a written unconditional guaranty from Community National Bank Corporation (the Bank's holding company) that the Bank will comply with the Plan until the Bank has been, at a minimum, adequately capitalized on average during each of four (4) consecutive calendar quarters. To be acceptable, the guaranty shall provide adequate assurance of the holding company's performance through the transfer or pledge to the Bank of sufficient assets in a form satisfactory to the Director. This guarantee is limited to the lesser of 5 percent of the Bank's total assets at the time it became undercapitalized or the amount that is necessary to bring the Bank into capital compliance.

(5) Upon being notified in writing that the Capital Restoration Plan is acceptable to the Director, the Bank shall implement and shall adhere to the provisions of the Capital Restoration Plan.

(6) Not later than ten (10) days following the end of each month after the Director notifies the Bank that the Capital Restoration Plan is acceptable:

(a) Management of the Bank shall prepare, and the Board shall review, a written report specifying (i) whether the Bank was in compliance with each of the provisions of the Capital Restoration Plan during the preceding month, and (ii) a summary of actions taken during the preceding month in furtherance of the Bank's efforts to comply with each provision of the Capital Restoration Plan; and

(b) The Bank shall provide a copy of such report to the Director.

(7) As required by the Capital Directive issued on June 3, 2009, the Bank is required to submit an acceptable Capital Plan pursuant to 12 U.S.C. § 3907 and 12 C.F.R. Part 3. The Bank may make the Capital Restoration Plan and Capital Plan one document, provided the document/plan meets the requirement of both the Capital Restoration Plan and Capital Plan.

(8) The Capital Restoration Plan shall be submitted to the Director for a prior written determination of no supervisory objection. The Bank shall make any changes to the Capital Restoration Plan required by the Director.

(9) At the next Board meeting following receipt of the Director's written determination of no supervisory objection to the Capital Restoration Plan, but within twenty (20) days of the Bank's receipt of such determination, the Board shall adopt, approve and implement the Capital Restoration Plan. Thereafter, the Bank (subject to Board review and ongoing monitoring) shall implement and ensure adherence to the Capital Restoration Plan.

ARTICLE III

COMPLIANCE WITH MANDATORY RESTRICTIONS

(1) The Bank shall comply with all of the mandatory prompt corrective action provisions set forth in 12 U.S.C. § 1831o and 12 C.F.R. Part 6 that automatically apply to the Bank based upon the Bank’s prompt corrective action capital category. For a “critically undercapitalized” bank, such as the Bank, the following restrictions apply:

- (a) Pursuant to 12 U.S.C. § 1831o(d)(1) and 12 C.F.R. § 6.6(a), the Bank shall make no capital distribution if, after making the distribution, the Bank would be undercapitalized, unless such capital distribution is for the repurchase, redemption, retirement or other acquisition of shares or ownership interests:
 - (i) that is made in connection with the issuance of additional shares or obligations of the Bank in at least an equivalent amount;
 - (ii) that will reduce the Bank’s financial obligations or otherwise improve the Bank’s financial condition; and
 - (iii) the Bank first receives a written non-objection from the OCC;
- (b) The Bank shall not pay any management fee (as defined in 12 C.F.R. § 6.2(e)) to any controlling person of the Bank (as defined in 12 C.F.R. § 6.2(c)) if, after making the payment, the Bank would be undercapitalized. 12 U.S.C. § 1831o(d)(2) and 12 C.F.R. § 6.6(a);
- (c) The Bank shall not permit its average total assets during any calendar quarter to exceed its average total assets during the preceding quarter unless (i) the OCC has accepted the Bank’s Capital Restoration Plan, (ii) the increase in assets is consistent with the Plan, and (iii) the Bank’s ratio

of tangible equity to assets increases during the calendar quarter at a rate sufficient to enable the Bank to become adequately capitalized within a reasonable time. 12 U.S.C. § 1831o(e)(3) and 12 C.F.R. § 6.6(a)(2)(iv);

- (d) The Bank shall not, directly or indirectly, acquire any interest in any company or insured depository institution, establish or acquire any additional branch office, or engage in any new line of business, unless (i) the OCC has accepted the Bank's Capital Restoration Plan, the Bank is in compliance with the Plan, and the OCC determines that the action is consistent with, and will further achievement of the Plan, or (ii) the FDIC Board of Directors approves the action. 12 U.S.C. § 1831o(e)(4) and 12 C.F.R. § 6.6(a)(2)(v); and
- (e) The Bank shall not, without first receiving the OCC's written non-objection: (i) pay any bonus to any senior executive officer or (ii) provide compensation to any senior executive officer exceeding that officer's average rate of compensation (excluding bonuses, stock options, and profit-sharing) during the 12 calendar months preceding the calendar month in which the Bank became undercapitalized. 12 U.S.C. § 1831o(f)(4) and 12 C.F.R. § 6.6(a)(3).
- (f) The Bank shall not, beginning 60 days after the Bank became critically undercapitalized, make any payment of principal or interest on the Bank's subordinated debt pursuant to 12 U.S.C. § 1831o(h)(2)(A) & (B).
- (f) Pursuant to 12 U.S.C. § 1831o(i)(2), the Bank shall not, without first receiving the FDIC's prior written approval:

- (i) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, sale of assets, or other similar action with respect to which the Bank is required to give the OCC prior notice;
- (ii) extend credit for any highly leveraged transaction;
- (iii) amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of any law regulation, or order;
- (iv) make any material change in accounting methods;
- (v) engage in any "covered transactions" (as defined in 12 U.S.C. § 371c(b));
- (vi) pay excessive compensation or bonuses; and
- (vii) pay interest on new or renewed liabilities at a rate that would increase the Bank's weighted average cost of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the Bank's normal market areas.

(2) The Bank shall comply with all other restrictions applicable to it, including the following:

- (a) The Bank may not accept, renew or roll over any brokered deposit. 12 U.S.C. § 1831f(a) and 12 C.F.R. § 337.6(b)(3)(i); and
- (b) The Bank shall not accept new employee benefit plan deposits. 12 U.S.C. § 1821(a)(1)(D)(ii).

(3) The Bank shall cease all unsafe and unsound practices described in the OCC's Report of Examination transmitted to the Bank on or about March 26, 2009.

ARTICLE IV

OTHER ACTIONS REQUIRED

(1) Pursuant to 12 U.S.C. § 1831o(f)(2) and 12 C.F.R. § 6.6(b), immediately upon issuance of this PCA Directive, the Bank shall not do any of the following without the prior written approval of the Bank's Board and the prior written non-objection of the OCC:

- (a) Enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;
- (b) Engage in the sale or transfer of any Bank asset or pool of assets exceeding a fair market value of one hundred thousand dollars (\$100,000). Any asset sale or transfer less than \$100,000 should be reported to the OCC after the sale;
- (c) Transfer any asset to the holding company or other affiliated party or person;
- (d) Engage in any transaction for the transfer of funds, the extension of credit, acceptance or transference of risk and/or the conferring of another type of benefit, directly or indirectly, involving any Bank affiliates, as defined in 12 U.S.C. § 371c, or current or former Bank directors, shareholders, senior executive officers, or their respective family members;
- (e) Extend any additional credit to any classified borrower without prudent justification;
- (f) Amend the bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order; or
- (g) Make any change in accounting methods.

(2) Effective immediately upon issuance of this Directive, the Bank shall ensure that all documents, books and records are accurately maintained on the premises of the Bank in their original state for a period of five (5) years.

(3) The Bank shall cooperate fully with the FDIC's efforts to avoid a loss or otherwise minimize exposure to the Deposit Insurance Fund. Such cooperation includes, but is not limited to, responding to requests for information, providing full access to personnel, agents and service providers, accommodating on-site visits, and permitting the FDIC to provide otherwise confidential information to third parties to facilitate the liquidation or other resolution of the Bank in anticipation of the possible appointment of the FDIC as conservator, receiver, or other legal custodian.

ARTICLE V

BOARD OF DIRECTOR FEES AND OTHER COMPENSATION

(1) Effective immediately, the Bank shall obtain the written supervisory non-objection of the Director prior to the payment of any fees, expense reimbursements or other types of compensation to a Bank director or their related interests, as defined in 12 C.F.R. Part 215 ("Bank Director"), other than salary payments to the Bank's president, previously approved by the Board, earned and accrued in any pay period.

(2) Effective immediately, the Bank shall obtain the written supervisory non-objection of the Director prior to the payment of any bonuses, commissions, severance, or similar remuneration.

(3) Any request for supervisory non-objection shall contain, at a minimum and in writing, the Board's determine that such remuneration:

- (a) is reasonable;

- (b) has a direct relationship to, and is based solely upon, the fair value of goods and services received by the Bank; and
- (c) compensates only for providing goods and services which meet the legitimate needs of the Bank.

(4) In addition to the requirements of the preceding paragraph of this Article, the Board shall review and maintain:

- (a) written documentation of all services rendered by the Bank Director;
- (b) records indicating the day(s) and time periods during which the Bank Director 's services were performed;
- (c) expense vouchers and receipts for all reimbursable expenses; and
- (d) a written analysis of the services rendered by the Bank Director to ensure that the Bank has received the full benefit to which it is entitled.

ARTICLE VI

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in all executive officer positions to carry out the Board's policies; ensure compliance with this Order; ensure compliance with applicable laws, rules, and regulations; and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within sixty (60) days of issuance of this Directive, the Board shall prepare a written assessment of the capabilities of the Bank's executive officers to perform present and anticipated duties, taking into account the findings contained in the Report of Examination, and factoring in the officer's past actual performance, experience, and qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Capital Restoration Plan and correct the unsafe or unsound

practices and other deficiencies contained in the Report of Examination. Upon completion, a copy of the written assessment shall be submitted to the Director.

(3) If the Board determines that an officer's performance, skills or abilities needs improvement, the Board will, within thirty (30) days following its determination, require the Bank to develop and implement a written program, with specific time frames, to improve the officer's performance, skills and abilities. Upon completion, a copy of the written program shall be submitted to the Director.

(4) If the Board determines that an officer will not continue in his/her position, the Board shall document the reasons for this decision in its assessment performed pursuant to paragraph (2) of this Article, and shall within sixty (60) days of such vacancy identify and provide notice to the Director, pursuant to paragraph (5) of this Article, of a qualified and capable candidate for the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Directive and the safe and sound operation of functions within the scope of that position's responsibility.

(5) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Director written notice, as required by 12 C.F.R. § 5.51 and in accordance with the Comptroller's Licensing Manual. The Director shall have the power to disapprove the appointment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer. The requirement to submit information and the prior disapproval provisions of this Article are based upon the authority of 12 U.S.C. § 1818(b) and do not require the Director to complete his review and act on any such information or authority within ninety (90) days.

(6) The Board shall perform, at least annually, a written performance appraisal for each Bank executive officer that establishes objectives by which the officer's effectiveness will

be measured, evaluates performance according to the position's description and responsibilities, and assesses accountability for action plans to remedy issues raised in Reports of Examination or audit reports. Upon completion, copies of the performance appraisals shall be submitted to the Director. The Board shall ensure that the Bank addresses any identified deficiencies in a manner consistent with paragraphs (3) and (4) of this Article.

ARTICLE VII

LOAN PORTFOLIO MANAGEMENT

(1) Within thirty (30) days of issuance of this Directive, Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written credit policy to improve the Bank's loan portfolio management. The credit policy shall include (but not be limited to):

- (a) a description of the types of credit information required from borrowers and guarantors, including (but not limited to) annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;
- (b) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and validating current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower's and guarantor's cash flow, debt service requirements, contingent liabilities, and global liquidity condition, and only after the credit officer prepares a documented credit analysis;
- (c) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral, and that reasonable limits are

established on credit advances against collateral, based on a consideration of (but not limited to) a realistic assessment of the value of collateral, the ratio of loan to value, and overall debt service requirements;

- (d) procedures and controls to periodically verify the existence and lien position of collateral;
- (e) procedures to ensure that loans made for the purpose of constructing or developing real estate include (but are not limited to) requirements to:
 - (i) obtain and evaluate detailed project plans; detailed project budget; time frames for project completion; detailed market analysis; and sales projections, including projected absorption rates;
 - (ii) conduct stress testing of significant projects and lending; and
 - (iii) obtain current documentation sufficient to support a detailed analysis of the financial condition of borrowers and significant guarantors.
- (f) a requirement that borrowers and/or guarantors maintain any collateral margins established in the credit approval process;
- (g) procedures that prohibit the capitalization of accrued interest on any loan renewal or extension;
- (h) procedures that prohibit, on any loan renewal, extension or modification, the establishment of an interest reserve using the proceeds of any Bank loan to the same borrower or guarantor;
- (i) procedures to ensure that all exceptions to the credit policy shall be clearly documented on the loan offering sheet, problem loan report, and other

MIS; and approved by the Board or a committee thereof before the loan is funded or renewed;

- (j) credit risk rating definitions consistent with applicable regulatory guidance;
- (k) procedures for early problem loan identification, to ensure that credits are accurately risk rated at least monthly; and
- (l) prudent lending and approval limits for lending officers that are commensurate with their experience and qualifications, and that prohibit combining individual lending officers' lending authority to increase limits.

(2) The Board shall ensure that Bank personnel performing credit analyses are adequately trained in cash flow analysis, particularly analysis using information from tax returns, and that processes are in place to ensure that additional training is provided as needed.

(3) Within sixty (60) days of issuance of this Directive the Board shall establish a written performance appraisal and salary administration process for loan officers that adequately considers performance relative to job descriptions, policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters.

ARTICLE VIII

APPRAISALS OF REAL PROPERTY

(1) The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal, in accordance with 12 U.S.C. § 1828(o) and 12 C.F.R. Part 34, on any loan that is secured by real property:

- (a) where the loan's appraisal was found to violate 12 U.S.C. § 1828(o) or 12 C.F.R. Part 34; or

- (b) where the loan was criticized in the most recent ROE or by the Bank's internal or external loan review and the most recent independent appraisal is more than twelve (12) months old; or
- (c) where the borrower has failed to comply with the contractual terms of the loan agreement and the loan officer's analysis of current financial information does not support the ongoing ability of the borrower or guarantor(s) to perform in accordance with the contractual terms of the loan agreement and the most recent independent appraisal is more than twelve (12) months old.

(2) The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal, in accordance with 12 U.S.C. § 1828(o) and 12 C.F.R. Part 34, on each parcel of Other Real Estate Owned ("OREO") where it is needed to bring an existing OREO appraisal into conformity with the provisions of 12 U.S.C. § 1828(o) and 12 C.F.R. Part 34. The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal before any new parcel is transferred to OREO.

(3) Appraisals required by this Article shall be ordered within thirty (30) days following the event triggering the appraisal requirement, for delivery to the Bank within sixty (60) days of ordering.

(4) Within sixty (60) days of issuance of this Directive, the Board shall require and the Bank shall develop and implement an independent review and analysis process to ensure that appraisals conform to appraisal standards and regulations. The appraisal review and analysis process shall ensure that appraisals are:

- (a) performed in accordance with 12 U.S.C. § 1828(o) and 12 C.F.R. Part 34;

- (b) consistent with the guidance in OCC Bulletin 2005-6, "Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions: Frequently Asked Questions" (March 22, 2005); and
 - (c) consistent with OCC Advisory Letter 2003-9, "Independent Appraisal and Evaluation Function" (October 28, 2003).
- (5) Written documentation supporting each appraisal review and analysis shall be retained in the loan file, along with the appraisal.

ARTICLE IX

CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days of issuance of this Directive, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written commercial real estate ("CRE") and construction & development ("C&D") concentration management program (including appropriate revisions to policies and procedures), designed to manage the risk in the Bank's CRE and C&D loan portfolios in accordance with the guidelines in OCC Bulletin 2006-46, "Concentration in Commercial Real Estate Lending, Sound Risk Management Practices" (December 6, 2006), and "Commercial Real Estate and Construction Lending," Booklet A-CRE of the *Comptroller's Handbook* (Narrative - November 1995 and Procedures – March 1998). The program shall include (but not be limited to) the following:

- (a) policy guidelines and an overall CRE and C&D lending strategy, addressing the level and nature of CRE and C&D exposures acceptable to the institution and setting concentration limits, including limits on commitments to individual borrowers and appropriate sub-limits (for example, by property types);

- (b) procedures and controls to monitor compliance with the Bank's lending policies and the Strategic Plan;
- (c) procedures to identify and quantify the nature and level of risk presented by CRE and C&D concentrations, including review of reports describing changes in conditions in the Bank's CRE and C&D markets;
- (d) procedures to periodically review and revise, as appropriate, CRE and C&D risk exposure limits and sub-limits to conform to any changes in the Bank's strategies and to respond to changes in market conditions;
- (e) periodic portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;
- (f) ongoing market analyses for the various property types and geographic markets represented in its portfolio;
- (g) appropriate strategies for managing CRE and C&D concentration levels, including a contingency plan to reduce or mitigate concentrations in the event of adverse CRE or C&D market conditions; and
- (h) periodic reports to the Board, to include the following, as appropriate:
 - (i) a summary of concentration levels, by type and subtype;
 - (ii) a synopsis of the Bank's market analysis;
 - (iii) a discussion of recommended strategy (for example, revise limits or change underwriting criteria) when concentrations approach or exceed Board-approved limits;
 - (iv) a synopsis of changes in risk levels by concentration type and subtype, with discussion of recommended changes in credit

administration procedures (for example, underwriting practices, risk rating, monitoring, and training).

(2) The Board shall forward a copy of the program required in paragraph (1) above, and any concentration reports, studies, or analyses to the Director.

ARTICLE X

CREDIT AND COLLATERAL EXCEPTIONS

(1) The Bank shall obtain current and complete credit information on all loans lacking such information, including those listed in the most recent Report of Examination (within sixty (60) days from the effective date of this Directive), in any subsequent Report of Examination (within sixty (60) days from the issuance of such Report of Examination), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination (within sixty (60) days from receipt of such listing). The Bank shall maintain a list of any credit exceptions that have not been corrected within the timeframe discussed above. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

(2) The Bank shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the most recent Report of Examination (within sixty (60) days from the effective date of this Directive), in any subsequent Report of Examination (within sixty (60) days from the issuance of such Report of Examination), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination (within sixty (60) days from the receipt of such listing). The Bank shall maintain a list of any collateral exceptions that have not been corrected within the timeframe

discussed above. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and
- (e) obtaining and analyzing current and complete credit information, including cash flow analysis, where loans are to be repaid from operations and global cash flow analysis, where loan repayment is expected from other sources such as Guarantors;

(4) Failure to obtain the information required by subparagraph (3)(d) of this Article shall require a majority of the full Board (or a designated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the required information in (3)(d) would be detrimental to the best interests of the Bank. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

ARTICLE XI

LOAN REVIEW

(1) Within sixty (60) days of issuance of this Directive, the Board shall establish an effective, independent, and on-going loan review program to review, at least quarterly, the Bank's loan and lease portfolios, to assure the timely identification and categorization of problem

credits. The program shall provide for a written report to be filed with the Board promptly after each review and shall employ a loan and lease rating system consistent with the guidelines set forth in “Rating Credit Risk” and “Allowance for Loan and Lease Losses,” booklets A-RCR and A-ALLL, respectively, of the *Comptroller’s Handbook*. Such reports shall include, at a minimum:

- (a) conclusions regarding the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) loans meeting the criteria for nonaccrual status;
- (f) the identity of the loan officer of each loan reported in accordance with subparagraphs (b) through (e);
- (g) the identification and status of credit-related violations of law, rule, or regulation;
- (h) concentrations of credit;
- (i) loans and leases to the directors, executive officers, and principal shareholders of the Bank and to their related interests; and
- (j) loans and leases in nonconformance with the Bank's lending and leasing policies, and exceptions to the Bank’s lending and leasing policies.

(2) The Board shall evaluate the loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, as appropriate, is taken upon all findings noted in the report(s), and documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall immediately require and the Bank shall implement and thereafter adhere to a program for the maintenance of an adequate Allowance for Loan and Lease Losses ("ALLL"). The program shall be consistent with the comments on maintaining a proper ALLL found in the Interagency Policy Statement on the ALLL contained in OCC Bulletin 2006-47 (December 13, 2006) and with "Allowance for Loan and Lease Losses," booklet A-ALLL of the *Comptroller's Handbook*, and shall incorporate the following:

- (a) internal risk ratings of loans;
- (b) results of the Bank's independent loan review;
- (c) criteria for determining which loans will be reviewed under Financial Accounting Standard ("FAS") 114, how impairment will be determined, and procedures to ensure that the analysis of loans complies with FAS 114 requirements;
- (d) criteria for determining FAS 5 loan pools and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with generally accepted accounting principles ("GAAP") and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and projected economic and market conditions.

(2) The program shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to filing the Consolidated Reports of Condition and Income, by additional

provisions from earnings. Written documentation shall be maintained of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL and made available for review by National Bank Examiners.

(3) A copy of the Board's ALLL program, and any subsequent revisions to the program, shall be submitted to the Director.

ARTICLE XIII

CRITICIZED ASSETS

(1) Within thirty (30) days of issuance of this Directive, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to protect the Bank's interest in those assets criticized in the most recent Report of Examination ("ROE"), in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." The program shall include the development of Criticized Asset Reports ("CARs") identifying all credit relationships and other assets totaling in aggregate one hundred thousand dollars (\$100,000) or more, criticized as "doubtful," "substandard," or "special mention." The CARs must be updated and submitted to the Board and the Director monthly. Each CAR shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

- (a) the origination date and any renewal or extension dates, amount, purpose of the loan, and the originating and current loan officer(s);
- (b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source;

- (c) the appraised value of supporting collateral and the position of the Bank's lien on such collateral, where applicable, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including cash flow analysis where loans are to be repaid from operations;
- (e) results of any FAS 114 impairment analysis;
- (f) significant developments, including a discussion of changes since the prior CAR, if any; and
- (g) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including an appropriate exit strategy.

(2) The Bank may not extend credit, directly or indirectly, including renewals, extensions, or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination, unless and until each of the following conditions is met:

- (a) the Board, or a designated committee thereof, finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending, or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank. A copy of the findings and approval of the Board or designated committee shall be maintained in the credit file of the affected borrower and made available for review by National Bank Examiners;

- (b) the Bank performs a written credit and collateral analysis as required by paragraph (1)(d) of this Article and, if necessary, the proposed action referred to in paragraph (1)(g) of this Article is revised, as appropriate; and
- (c) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of additional credit.

ARTICLE XIV

LIQUIDITY RISK MANAGEMENT PROGRAM

(1) Within thirty (30) days of issuance of this Directive, the Board shall revise and maintain a comprehensive liquidity risk management program which assesses, on an ongoing basis, the Bank's current and projected funding needs, and ensures that sufficient funds or access to funds exist to meet those needs. Such a program must include effective methods to achieve and maintain sufficient liquidity and to measure and monitor liquidity risk, to include at a minimum:

- (a) strategies to maintain sufficient liquidity at reasonable costs including, but not limited to, the following:
 - (i) better diversification of funding sources, reducing reliance on high cost providers;
 - (ii) reducing rollover risk;
 - (iii) increasing liquidity through such actions as obtaining additional capital, placing limits on asset growth, aggressive collection of problem loans and recovery of charged-off assets, and asset sales; and
 - (iv) monitoring the projected impact on reputation, economic and credit conditions in the Bank's market(s).

- (b) The preparation of liquidity reports which shall be reviewed by the Board on at least a monthly basis, to include, at a minimum, the following:
- (i) a certificate of deposit maturity schedule, including separate line items for brokered deposits and uninsured deposits, depicting maturities on a weekly basis for the next two months and monthly for the following four months, which schedule shall be updated at least weekly;
 - (ii) a schedule of all funding obligations, including money market accounts, unfunded loan commitments, outstanding lines of credit and outstanding letters of credit, showing the obligations that can be drawn immediately, and on a weekly basis for the next two months and monthly for the following four months, which schedule shall be prepared and updated at least weekly;
 - (iii) a listing of funding sources, prepared and updated on a weekly basis for the next two months and monthly for the following four months, including federal funds sold; unpledged assets and assets available for sale; and borrowing lines by lender, including original amount, remaining availability, type and book value of collateral pledged, terms, and maturity date, if applicable.
 - (iv) a monthly sources and uses of funds report for a minimum period of six months, updated monthly, which reflects known and projected changes in asset and liability accounts, and the assumptions used in developing the projections. Such reports shall include, at a minimum:

1. the funding obligations and sources required by (b) and (c) of this paragraph;
2. projected additional funding sources, including loan payments, loan sales/participations, or deposit increases; and
3. projected additional funding requirements from a reduction in deposit accounts including uninsured and brokered deposits, inability to acquire federal funds purchased, or availability limitations or reductions associated with borrowing relationships.

(c) A contingency funding plan that, on a monthly basis, forecasts funding needs, and funding sources under different stress scenarios which represent management's best estimate of balance sheet changes that may result from a liquidity or credit event. The contingency funding plan shall include:

- (i) specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Directive and 12 U.S.C. §1831o, including the restrictions against brokered deposits in 12 C.F.R. § 337.6 (which plans may be subject to revision as may be appropriate upon the adoption, if any, of currently-proposed changes to 12 C.F.R. § 337.6);
- (ii) the preparation of reports which identify and quantify all sources of funding and funding obligations under best case and worst case scenarios, including asset funding, liability funding and off-balance sheet funding; and

- (iii) procedures which ensure that the Bank's contingency funding practices are consistent with the Board's guidance and risk tolerances.

(2) The Board shall submit a copy of the comprehensive liquidity risk management program, along with the reports required by this Article, to the Director for review.

ARTICLE XV

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE, any subsequent Report of Examination, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within ninety (90) days after the violation is cited or brought to the Board's attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified time.

(2) Within sixty (60) days of issuance of this Directive, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent future violations as cited in the ROE; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(3) Upon adoption, the Board shall forward a copy of these policies and procedures to the Director.

ARTICLE XVI

GENERAL PROVISIONS

(1) This PCA Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

(2) Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the PCA Directive to be made upon, given or furnished to, delivered to, or filed with the OCC shall be in writing and sent by first class U.S. mail (or by reputable overnight courier or hand delivery via messenger) addressed as follows:

Director
Special Supervision Division
250 E Street, S.W.
Washington, D.C. 20219

(3) If any provision in this PCA Directive is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless the OCC, in its sole discretion, determines otherwise.

(4) Each provision of this PCA Directive shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs of the Bank.

(5) It is expressly and clearly understood that if, at any time, the OCC deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, or any institution-affiliated party of the Bank, nothing in this PCA Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(6) If the Bank determines that: (i) it is unable to comply with any provision of this PCA Directive; (ii) compliance with any provision of this PCA Directive will cause undue hardship to the Bank; or (iii) the Bank requires an extension of any timeframe within this PCA Directive, the Bank shall submit a written request to the Director asking for relief. Any written request submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that supports the Bank's request. All such requests shall be accompanied by relevant supporting documentation, together with a copy of a Board Resolution authorizing the request. The Director's decision pertaining to the request is final.

(7) The provisions of this PCA Directive are effective upon issuance of this Directive by the OCC, through the Director whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this PCA Directive shall have been amended, suspended, waived, or terminated in writing by the OCC. This PCA Directive is effective as of the date indicated below.

IT IS SO ORDERED, this 3rd day of June, 2009.

signed
Ronald G. Schneck
Director for Special Supervision